NOVEMBER 1953

The Mortgage Banker

The President's Advisory Committee on Housing Policies and Programs has its first meeting (See page 23)

MORTGAGE BANKERS ASSOCIATION OF AMERICA · MBA · ORGANIZED 1914

in this issue — HARD MONEY VS SOFT ★ THE INTEREST RATE OUTLOOK ★ THE LAST WORD ABOUT THE CONVENTION BEFORE OPENING

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MBA Calendar

November 9-13, 1953, 40th Annual Convention, Miami Beach.

January 26-28, 1954, Senior Executives Course, New York University, New York.

February 25-26, 1954, Midwestern Mortgage Conference, Conrad Hilton Hotel, Chicago.

April 12-13, 1954, Eastern Mortgage Conference, Commodore Hotel, New York.

The Mortgage Banker

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Volume 14 **NOVEMBER, 1953** **Number 2**

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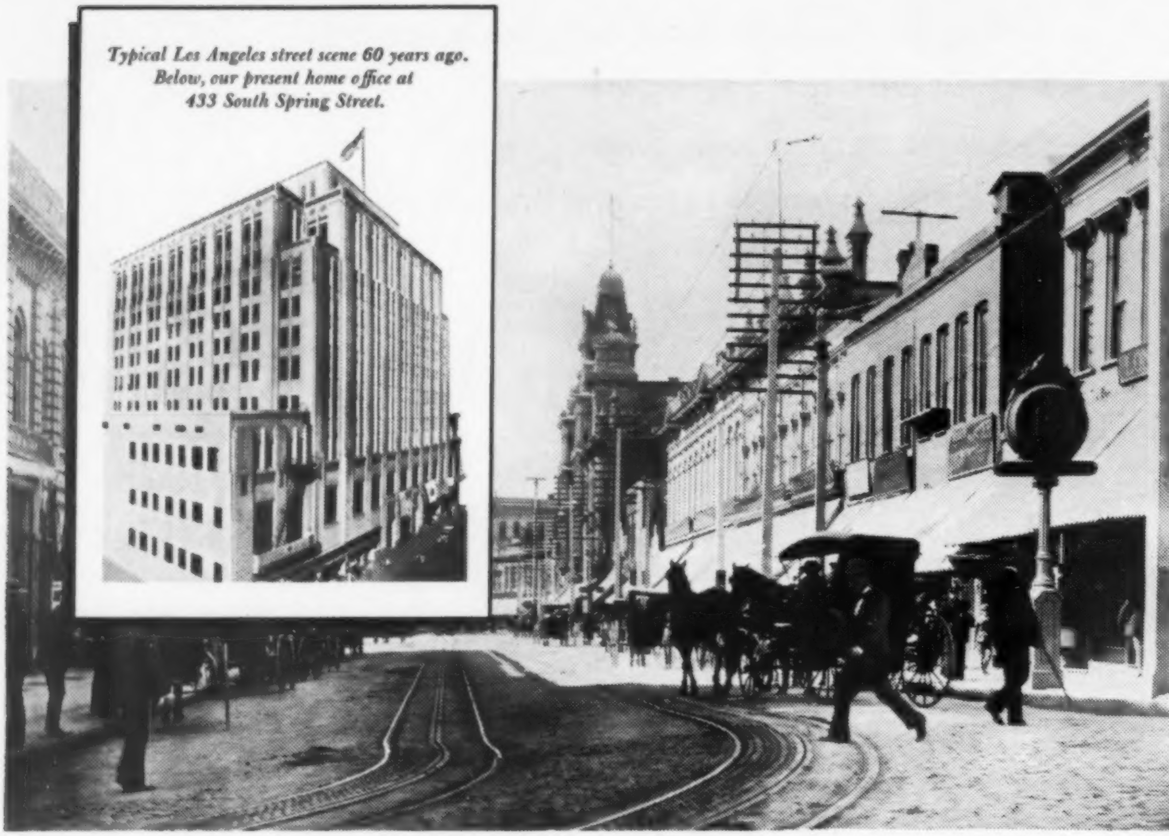

Typical Los Angeles street scene 60 years ago. Below, our present home office at 433 South Spring Street.

VITAL STATISTICS fo

No clear-cut trends are evident in our August and September statistics, reflecting the period's confused market conditions.

Economic activity [1] as a whole continued at a top level, comfortably above a year ago. Wholesale prices remained stable, and a fall pick-up in retail sales was present.

New construction expenditures in September [3], though not sharing last year's fall upturn, were close to August's record level. For the first nine months, 1953's expenditures were 7 per cent above 1952's. Underlying these figures, however, is the fact that the only important element of private construction now definitely expanding is commercial building.

A definite sag shows up in new housing starts [4], which have been dropping since April. Now the year is 1 per cent behind 1952, although the private sector is still up 1 per cent.

The weary aspect of housebuilding seems attributable to mounting difficulties in FHA and VA financing. With mortgage recordings [5] 7 per cent ahead of last August, the market as a whole has been experiencing no shortage of funds. In contrast to the total picture, FHA's August and September home mortgage activity [7] was much lower than in 1952, while the August pick-up in VA appraisal requests was followed by a relapse to below the September 1952 level.

Characteristically, August was a dull month for insurance company mortgage activity [6], but VA and FHA combined activity, while off from July, was almost at last August's level and represented a similar proportion of total life insurance lending.

The easing of the money situation is seen in September bond yields [2] on governments. Increases in corporate yields, reflecting a large number of new issues, were reversed during early October when rates fell to the lowest point since the spring.

(1). General Business Indexes
(without seasonal adjustment)

	—1953—		—1952—		First 9 Months	
	September	August	September	August	1953	1952
Industrial production*	239[e]	239[p]	232	218	238	214
Wholesale prices**	111.0[p]	110.6	111.8	112.2	110.1	112.0
Department store sales**	113[e]	97[p]	113	98	100	97

Sources: Federal Reserve Board, U. S. Department of Labor.
*1935-39 = 100. **1947-49 = 100. [e]Estimated. [p]Preliminary.

(2). Bond Yields

	—1953—		—1952—		First 9 Months	
	September	August	September	August	1953	1952
Long-term U. S. governments:						
3¼% issue of May 1953, 1978-83	3.19	3.22	—	—	—	—
Other long-term issues	2.97	3.00	2.71	2.70	2.96	2.67
High-grade municipals (Standard & Poor's)	2.88	2.88	2.33	2.22	2.75	2.12
Moody's corporates, total	3.55	3.51	3.19	3.18	3.44	3.18
Moody's Aaa corporates	3.30	3.24	2.95	2.94	3.22	2.95

Source: Federal Reserve Board.

S for the Mortgage Banker

(3). Expenditures for New Construction Put in Place
(millions of dollars)

	—1953—		—1952—		First 9 Months	
	September[p]	August	September	August	1953	1952
Private	$2,185	$2,205	$2,029	$2,030	$17,490	$16,076
Residential (nonfarm)	1,087	1,107	1,045	1,047	8,803	8,083
Nonresidential building	516	502	434	421	4,161	3,697
Public utility	428	427	381	379	3,266	2,967
Farm and other	154	169	169	183	1,260	1,329
Public	1,125	1,118	1,131	1,088	8,448	8,060
Total	$3,310	$3,323	$3,160	$3,118	$25,938	$24,136

Source: U. S. Departments of Commerce and Labor. [p]Preliminary.

(4). Number of Nonfarm Housing Units Started

	—1953—		—1952—		First 9 Months	
	September[p]	August[p]	September	August	1953	1952
Private	89,000	93,000	99,200	97,400	830,700	819,400
Public	3,000	1,000	1,600	1,700	32,700	48,900
Total	92,000	94,000	100,800	99,100	863,400	868,300

Source: U. S. Department of Labor. [p]Preliminary; figures are revised three months after issuance.

(5). Recordings of Nonfarm Mortgages of $20,000 or Less
(millions of dollars)

	—1953—		—1952—		First 8 Months	
	August	July	August	July	1953	1952
Savings and loan associations	$ 671	$ 699	$ 592	$ 586	$ 4,920	$ 4,166
Commercial banks	310	323	313	317	2,464	2,338
Insurance companies	122	132	119	113	992	926
Mutual savings banks	111	127	109	105	840	700
Mortgage companies and others	495	517	465	469	3,886	3,527
Total	$1,709	$1,798	$1,598	$1,590	$13,102	$11,657

Source: Home Loan Bank Board.

(6). Nonfarm Mortgage Acquisitions by Life Insurance Companies
(millions of dollars)

	—1953—		—1952—		First 8 Months	
	August	July	August	July	1953	1952
FHA	$ 62	$ 71	$ 66	$ 69	$ 576	$ 555
VA	32	36	29	34	238	334
Other	185	264	190	222	1,746	1,488
Total	$279	$371	$285	$325	$2,560	$2,377

Source: Institute of Life Insurance. Data include nonresidential as well as residential mortgages.

(7). Applications to FHA for Insurance on New Construction, and Appraisal Requests to VA on New Construction
(number of units)

	—1953—		—1952—		First 9 Months	
	September	August	September	August	1953	1952
FHA applications	18,041	23,919[r]	26,720	27,197	263,606	238,728
Units in home mortgages	16,069	13,999	22,588	23,901	209,313	195,583
Units in project mortgages	1,972	9,920[r]	4,132	3,296	54,293	43,145
VA appraisal requests	17,768	22,118	18,883	18,184	190,599	170,053

Sources: Federal Housing Administration, Veterans Administration. [r]Revised.

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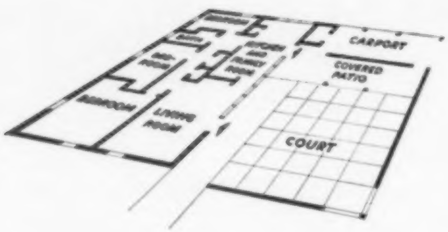
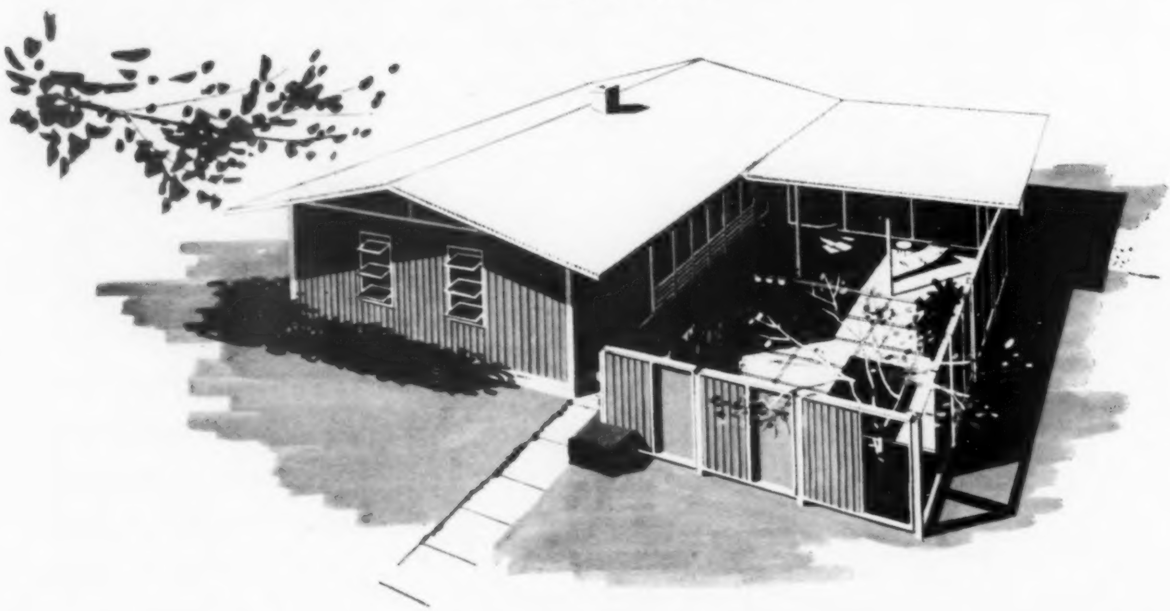


National homes have always led in smart designs and new features. But the 1954 Nationals, created by the world famous architect Charles M. Goodman, AIA, are years ahead in pace-setting style. And in value—with complete air conditioning as low as $500 additional. They have irresistible appeal to the home-seeker . . . as well as offering sound investment opportunities. A brochure showing these newest National homes in full color will be sent on request.



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How the Government is Trying To Make the Dollar Honest

Let the man who is more responsible than anyone else for the nation's present fiscal policies give you a lesson in economics with his explanation of what the government is trying to achieve in its program for honest money

THE present administration is trying to achieve sound money— not hard money but honest money.

Sound money is based upon three principal pillars — a proper budget policy, a properly functioning Federal Reserve System, and proper debt management. This administration is working constantly to strengthen all three pillars. Our goal in each of these areas is clear. If we have not achieved our goal overnight, it is not only because of the size of the job itself but also because we realize that our economy is a very sensitive mechanism and we must proceed carefully, but always steadily, toward the goal we seek. Too drastic and precipitous action might react badly in many ways. We must approach our objective cautiously but resolutely and always press toward it.

The first pillar—and one which we have already made substantial progress in strengthening—is the budget pillar. Deficit financing—spending more than you take in—means more and more borrowing and debts which in times of high employment and incomes lead to inflationary pressures and unsound money. When a government spends more than it takes in, it has to borrow to pay its bills. When a government borrows from the banks, it creates more credit, increases the money supply, and thus helps cause inflation.

This is what we are trying to check.

The midyear review of the 1954 fiscal budget showed some real progress being made in getting the budget in hand. Estimated expenditures have been reduced by nearly $6½ billion under the spending estimates this administration found upon taking office in January. In addition, income was overestimated by more than a billion dollars. So that the prospective deficit has really been cut from over $11 billion to less than $4 billion.

Eighty-one billion dollars of C.O.D. orders which were placed by the government from one to three years ago will come due in the next year or two and must be paid for. These inherited obligations make it impossible to balance the budget overnight, but even these forward obligations will be cut this year by more than $9 billion, according to present planning.

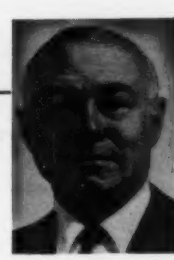
As our midyear budget review showed, we have turned the corner in attempting to get our government's finances in hand. For the first time in the past few years we are planning to spend *less* this year than in the year before. The sharply rising curve in Federal spending has now turned downward. This is a very encouraging development. If we can reach a current balance in our cash income and cash expenditures by the end of this fiscal year, it will be much better than we had dared to hope for six months or so ago.

The budget review announced recently is a turning point because for the first time since 1948 we have *total appropriations which are less than estimated receipts for the year.* This points to future reductions in both spending and taxation.

Unless some unexpected event

By GEORGE M. HUMPHREY

Secretary of the Treasury



arises which substantially changes the need for money, we believe that we are finally on our way toward getting the budget under control. Of course, this is all based upon estimates—estimates which we hope are realized—but this business of estimating how much the government is going to take in and pay out has a great many pitfalls.

Over 70 per cent of our expenditures are for national security programs, and even a relatively small estimating error can mean hundreds of millions of dollars. For these programs alone we are spending about a billion dollars a week.

There are other programs, too, where the relative margin of error is even greater than it is for the military, although there may not be so many dollars involved. Take the Commodity Credit Corporation for example. In order to figure its net outlays in advance you have to not only estimate the size of the various crops but also just how the farm price support program is going to work out in the year ahead and, even more important, how much of it will be handled by the banks instead of the Treasury. In the last fiscal year (1953) the budget estimate was about $800 million for Commodity Credit but when the year closed it actually turned out to be about $1 billion more.

Every banker and lender knows that the matter of estimating budget expenditures is further complicated by the necessity for estimating the distribution of those expenditures from month to month—and even day by day in some instances—and preparing to have sufficient funds on hand to be able to meet current requirements. We cannot run our cash balances too low—a point we made in the debt limit discussion. It is sometimes hard to realize that if our cash runs down too much, a few days of unexpectedly heavy expenditures, or an unpredictable shift of a few days in tax receipts, might easily force the Treasury to do borrowing at a time when conditions in the money market were not propitious or in amounts that might substantially exceed our estimated borrowings. That was the basis for our request for raising the debt limit.

We were not seeking to remove any limitation on or deterrent to greater spending. We have demonstrated our insistent interest in and demand for economy and getting our money's worth, but because we are responsible for the government's fiscal policies we must have the elasticity required to plan them in the best way. The operation of the Mills plan requires the payment of 90 per cent of the corporate tax money in the first half of next calendar year. In accordance with practices established when the plan was first inaugurated, tax anticipation notes in the amount of several billion dollars must be issued in the last half of the calendar year, when only 10 per cent of corporate taxes are received, against the 90 per cent to be received in the following spring. This makes a temporary increase in the government debt a practical necessity for a short period even though a cash balance in the annual expenditure is achieved, and under present laws there is no way to avoid it.

The great and really important reason, however, why it is most difficult to cut expenditures radically and bring both a balanced budget and a tax reduction into quick being at the same time relates to our national security. Without due consideration for it, the rapid reduction of expenses would be comparatively easy. But with the real possibility of an atomic Pearl Harbor hanging directly over our heads, and with the knowledge of the Russian capability to produce an even more potent weapon, national security is a matter of first concern.

I do not mean that hope of reduction in expenditures and taxes must be abandoned. But the necessity for caution and planning and assurance that reductions are justified before they are made is paramount. A balance between our military and our economic security must be achieved. The ability, the ingenuity, the management, planning and experience of all Americans, under the present able leadership of our Defense Department, I am sure will devise and provide means of accomplishing stronger defense for less money as time goes on. We cannot move as rapidly as we would like, but our course is plain, our objective is definite, and we will achieve it with only the time necessary to be sure of the safety of our actions as we move toward it.

The second pillar of sound money is a properly functioning Federal Reserve System. This is another way of saying effective monetary policy.

The balance between the money and credit supply and the actual flow of goods in commerce is best maintained by letting the price of money rise and fall with the demand for money. At the same time our Federal Reserve System can and should use its powers to keep the market for credit orderly and to avoid excesses in either direction, to avoid either inflation or deflation.

In the years preceding the March 1951 accord, the Federal Reserve System, under Treasury domination, contributed substantially to inflation by artificial manipulation of the value of government securities. During and after World War II, the Federal Reserve System lost much of its independence. It was used by the Treasury to raise unprecedented amounts of money, and during the war this requirement completely overshadowed monetary policy. As long as the war was on and government controls kept wages and prices pretty well in line, there wasn't so much trouble. But when in 1946 direct controls were removed without also concurrently releasing the Federal Reserve, the excesses of the war years brought inflation and hardship to millions of Americans.

From 1946 to 1951, the Federal Reserve was a prisoner of the Treasury policy in handling the national debt. Instead of allowing the natural increases in interest rates, the Federal Reserve focused major attention on making sure that the Treasury could handle the debt at low rates. This was not in the best interests of the country as a whole. It resulted in the absence of effective monetary policy until the accord of March 1951.

The March 1951 accord partly restored effective monetary policy to its rightful place in our economy. It

(Continued on page 38)

Convention MBA Chronicle

VOLUME I, No. 4 MIAMI BEACH, FLORIDA NOVEMBER, 1953

Last Call for the MBA Miami Beach Convention November 9-13, 1953

Everything Ready for MBA's Most Important Annual Convention

IF YOU happen to be one of those members who has delayed making plans for MBA's 40th annual Convention, it's not too late to do so. But you shouldn't delay a day longer and should:

» Register in advance so that your name will show on the advance registration list to be distributed before the opening and also appear in the Convention program. Send $25 registration fee and $10 fee for wives to the national office in Chicago. Advance registration closes October 19.

» Make your hotel reservations at once by writing the MBA Housing Bureau, Box 1511, Miami Beach. Excellent hotel rooms are available in the 22 ocean front hotels where MBA will be housed.

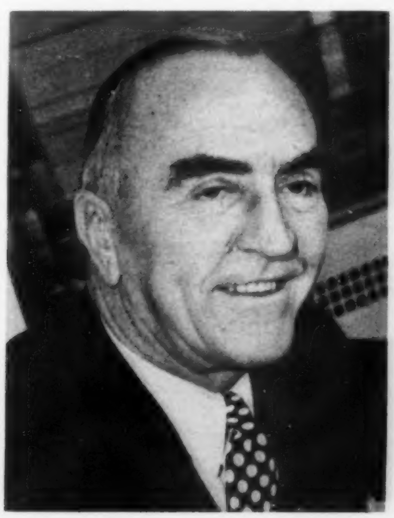
The Convention itself, celebrating MBA's 40th year, may well turn out to be the largest—and certainly it will be one of the most significant the mortgage industry has ever held.

Probably never before has mortgage lending faced such problems as it does at this moment. The rate increase on FHA and VA loans has not turned the market as many had confidently predicted it would. The stalemate continues but, significantly, within recent weeks there have been evidences of some sort of a turn. A greater investor interest in these loans has been shown, although admittedly it is small and not sufficient to indicate a definite turn.

In any event, the mortgage lender —and the investor—have an opportunity in MBA's Miami Beach Convention November 9 to 13 to participate in a full and accurate appraisal of just where this business stands at the moment and what are the prospects ahead.

» **THE PROGRAM:** Certainly the Association has never been privileged to present a more distinguished program than that which is scheduled

W. RANDOLPH BURGESS
Deputy to Treasury Secretary



CAPT. EDDIE RICKENBACKER
Chairman, Eastern Airlines

CONG. JESSE WOLCOTT
Banking-Currency Chairman

for our five-day meeting in Miami Beach. It's been described in these pages in recent months but let's run through it again, day by day:

Monday, November 9: It's All Florida Day. R. C. Houser of Miami and president, Greater Miami MBA, Frank Denton, president, Florida MBA, and President Whatley will open the Convention followed by addresses by

President Whatley

Sen. Spessard Holland of Florida

Capt. Eddie Rickenbacker

Tuesday, November 10: Theme is The American Business Picture with addresses by

Under Secretary of Commerce W. Walter Williams

Earl B. Schwulst, president, Bowery Savings Bank, New York

E. M. Spiegel, president, National Association of Home Builders

Wednesday, November 11: The theme is Government and the Mortgage Business with the principal addresses by

HHFA Administrator Albert M. Cole

FHA Commissioner Guy T. O. Hollyday

Director of VA's Loan Guaranty Service T. B. King

Congressman Jesse P. Wolcott, chairman of the Banking and Currency Committee of the House. Audience discussion will follow the talks.

Thursday, November 12: The theme is The Government's Monetary Policy and members will hear

W. WALTER WILLIAMS
Under Secretary of Commerce

HON. SPESSARD HOLLAND
U. S. Senator from Florida

ALBERT M. COLE
HHFA Administrator

GUY T. O. HOLLYDAY
FHA Commissioner

T. B. KING
Veterans Administration

EARL B. SCHWULST
The Bowery Savings Bank

W. Randolph Burgess, deputy to the Secretary of the Treasury and chief architect of the policy

Malcolm Bryan, president, Federal Reserve Bank of Atlanta

Ralph D. Paine, Jr., publisher of Fortune magazine *(see page 24)*

Friday, November 13: The subject is The Year Ahead which will embrace a critical analysis of the prospects for our industry in the future. Members will hear

Dr. Raymond Rodgers, professor of finance, New York University

Miles L. Colean, housing economist

William A. Clarke, who by that time will have been elected MBA president for 1953-54 at the annual business meeting scheduled for this closing session.

And between these five sessions will be a host of other meetings and various social affairs which add up to a very busy five days for those who will come to the Convention.

>> START ON TIME: There are five sessions on five days and President Whatley has determined that the meetings will start promptly at 9:30 every morning. Members should keep that fact in mind because this year there will not be the delay so often encountered in getting the sessions under way.

>> COMMITTEES: An important Convention activity will be the Committee meetings and these have been scheduled for the first three days.

Monday: Meetings of the Legislative, Clinic, Membership, Mortgage Servicing and Research committees.

DR. RAYMOND RODGERS
New York University

BROWN L. WHATLEY
MBA President

W. A. CLARKE
MBA Vice President

E. M. SPIEGEL, President
National Association of Home Builders

RALPH D. PAINE, JR.
Publisher of Fortune

MALCOLM BRYAN
Federal Reserve Bank, Atlanta

Tuesday: Meetings of the Educational, Pension Fund, GI, Conventional Loan, YMAC and Farm Loan

Wednesday: Meetings of the Trust Fund, FHA, Finance, Membership Qualifications and Publicity Committees.

All of these are scheduled for the Saxony, Sea Isle and Sans Souci Hotels. Members will find the hotel and room and the meeting time of their committees in the program.

MILES L. COLEAN
Housing Consultant

Nominee for Vice President
WALLACE MOIR

Lots for Ladies to Do at Convention

The 1953 MBA Convention has had a great appeal for the ladies, as witness the fact that almost 600 have already registered. This is one of those years when it hasn't taken any urging for the wives to come along.

And there will be no problem of occupying their time because Miami Beach and everything it has to offer has a particular appeal for the ladies. Two special events have been planned for them, the first on Wednesday consisting of a luncheon and style show at the San Souci Hotel where they will see the latest in fashions displayed in colorful surroundings. The second is a water carnival and tea at the Hotel Algiers Pool Thursday afternoon. This is something different and no wife coming to the Convention can afford to miss either event.

Tickets for both affairs are included in the wife's registration of $10—in fact, no tickets are needed but she should be sure to bring along her Convention badge. She'll be asked to show that.

. . . And Just Across the Water Is the Magic City of Miami

FOR several months now on these yellow pages *The Mortgage Banker* has been telling members of the innumerable things they will want to see and do during Convention week in Miami Beach where our activities will be concentrated. We've also told you a good deal about the attractions which are just a few minutes away—in the Magic City of Miami. Both cities are parts of this fabulous Greater Miami area which for interest and pleasure, cannot be excelled.

The MBA Florida Convention committee has singled out five outstanding attractions in this tropical paradise that everyone should see during their stay.

>> Among them are the Fairchild Tropical Gardens. These gardens contain over 300 species of tropical palms and thousands of shrubs and vines. The unfamiliar blooms and fruits of these exotic plants is a novel and instructive spectacle for the visitor from the North.

>> Vizcaya, the fabulous 30-acre estate of the late James Deering, is now operated as the Dade County Art Museum. When you pass through the wrought iron gates or land by boat from the bay, you enter a fairyland of fountains and gardens surrounding a great house facing Biscayne Bay as it might have been set by some princely family on the lagoons of Venice. The lavish furnishings are all treasures brought from Europe to adorn this most sumptuous of American houses. Room after room

That's Villa Vizcaya (above), the renowned estate of the late James Deering where you will see a wonderful Italian garden and famous art treasures from all over the world. Below, that's the pool at the Algiers Hotel where the ladies will have tea on Thursday and witness an aquatic carnival.

is crammed with fascinating and world famous objects of art.

In front of the house is the sea wall and its remarkable breakwater in the shape of a stone barge. To the south are the formal Italian gardens, without an equal in all of America.

›› Among the other attractions picked by the Committee is the Parrot Jungle, truly a must for the camera fan. Brilliant macaws, parrots, and cockatoos fly free while sea fowl, pheasant, flamingos and gouras strut below in a natural jungle of unspoiled tropical allure. Strange and exotic plants imported from the South Sea Islands and the Amazon make this one of Miami's most interesting tourist attractions.

›› Although Hialeah Race Course is closed at this time of the year, special arrangements have been made to open it on the Thursday of the Convention week. *(See below.)*

›› The fifth attraction singled out by the Committee is the Grey Line Boat Ride. Five different cruises are available, covering the most interesting waterfront area in the United States. The Everglades, jungles, alligator wrestling and a visit to the Seminole Indian Village are just a few of the sights to be seen on these trips.

The Miami skyline at night is certainly a never to be forgotten sight in this playground of the Americas.

Come armed with camera, sun tan lotion and a willingness to be entertained beyond your fondest hopes in America's only subtropic area.

Visit Hialeah and Lose Not a Cent

One of the truly magnificent sights of south Florida happens to be a race track, world famed Hialeah. The horses won't be running — as *The Mortgage Banker* months ago assured you they would be—but the track will be there and it is worth a trip to see it. The big attraction is the collection of flamingos, one of the most beautiful and graceful birds in the world.

The Hialeah management is opening the track for MBA members on Thursday, November 12 from 1:30 to

4:30 p.m. Your Convention badge is all the admission you need so plan to go out Thursday afternoon; you'll be well rewarded. Enter at the main grandstand at the north side of the track.

Golf Tournament to Be Held on Tuesday

There will be a golf tournament for those attending the Convention at La Gorce Country Club, 5685 Alton Road, Miami Beach, starting at 2 P.M. Tuesday, November 10, and both members and wives are invited to participate. On the next page is an entry blank which members should fill out and mail now to the La Gorce Club. A special green fee of $5 has been arranged. Trophies for those who win various events will be awarded at the Friday session of the Convention. Arrangements have also been made for members to play the La Gorce course any time they are in Miami Beach.

>> YOU'LL MOVE EASILY: About those special MBA buses to get you to and from your hotel and the Auditorium, you'll spot them easily with their big placards. They will be making 13 stops and one of them will be close to where you're staying. You'll find a map of the Miami Beach area in your program with an indication as to where your closest bus stop is.

>> EVERYTHING TO DRINK: The Greater Miami MBA is going to ply you with real fresh Florida orange juice while you are at the Convention. They'll have a bar right inside the Auditorium and will be inviting you to have your fill. And that's not all. The Louisiana MBA will be on the job every morning serving coffee. Your first stop can be with the Greater Miami MBA, then jump right over with the boys from Louisiana.

>> WHAT TO WEAR: If that's bothering any of the ladies, let's put it this way: Take summer things. The temperature averages around 73 degrees for November (the convention bureau talking now) so the emphasis is on lighter clothes. As we pointed out to the men before, this is your opportunity to wear that loud rainbow-hue sports shirt. Nothing is too colorful for Miami Beach.

That's famed Hialeah racetrack which members will have an opportunity to visit during Convention week. Below, Convention work-team at last meeting before opening. R. B. Roberts, III, Miami, President Brown L. Whatley, R. C. Houser, president, Greater Miami MBA, and MBA Secretary George H. Patterson.

This Changing U.S. Told at Convention

The United States is a land that no one ever predicted very accurately. The changing character of our economy and our markets has been dealt with in *Fortune* Magazine lately in a series on The Changing American Market. President Whatley had the idea that here was a message that would stand an even more graphic presentation than the excellently written treatement it had in the magazine. He proposed just that, and as a result your Convention program will include the presentation by Ralph D. Paine, Jr., publisher of *Fortune*.

He's been with the *Time-Life- Fortune* group since 1931, first as a *Time* writer, later with the magazine abroad, then to *Fortune* and now its head.

He'll present with charts and graphs the story of The Changing American Market which Gilbert Burck and Sanford Parker are now writing.

Some of the conclusions take the reader by surprise—the average man is usually not too much aware of the change going on about him. For instance, we're told that:

» The U. S. is becoming a one-class market of prosperous middle-income people.

» Family units with $4,000 to $7,500 in real disposable income (adjusted for inflation and taxes) now comprise 35 per cent of the total, and receive 42 per cent of the total consumer cash income. Their number has increased by 44 per cent since 1947.

» American families are having twice as many second babies as they did in 1940.

» The population, despite a virtual cessation of immigration, is increasing faster than it has in forty years.

» Americans are rapidly changing into a nation of suburbanites. Since 1947 population has increased by 15 million, but population of what loosely may be called the suburbs has increased by something like 17 million.

Everything in it is for us because it gets down to some of the essentials that will govern the kind of market the mortgage man will work in during the coming years. For instance:

"How long and how fast will the U. S. continue to grow? A few amateurs see a nation of 180 million by 1960. Most demographers, adamant in their reasoning that births will decline again, believe that the most we can look forward to is about 165 million or 170 million by 1960.

"Meantime the fact remains that the old, declining birth trend has not reasserted itself, even though the U. S. is entering its ninth postwar year. Is the population upsurge just an unusually long and freakish deviation from a basic downtrend caused perhaps by widespread restiveness? Or is it the result of a new optimism and confidence, based on a definite rise in well-being? The answer is yet to come."

You're sure to get a fresher picture of the world you're living in now and what lies ahead from what Mr. Paine will have to tell you.

Tear out and mail to—

La Gorce Country Club
5685 Alton Road
Miami Beach 40, Florida

Please enter me in the MBA Golf Tournament on Tuesday, November 10, 1953. I will_____ will not_____ bring my clubs. My handicap is _____ as certified by my local club pro.

MBA Member's Name ....

Address ....

Local pro..................................

The President's Advisory Committee On Housing Goes to Work

THE first systematic inquiry into the problem of government in housing and housing finance is officially underway and from it the country may expect some far-reaching results. The President's new Advisory Committee on Housing Policies and Programs, has held its first meeting and mapped out the major areas of study over the next two months, from which to develop recommendations for the President and the Housing Administrator by the first of the year. The Committee set up five subcommittees, four to deal with basic program areas of housing activity, and the fifth with organization of housing operations within the Federal government.

The subcommittees, each headed by a member of the Executive Committee, and their study areas are:

Housing Credit Facilities:

George L. Bliss, chairman. Mr. Bliss is president of the Century Federal Savings & Loan Association in New York.

Aksel Nielsen, president, Title Guaranty Co., Denver, and former MBA president.

Robert Patrick, financial vice president, Bankers Life Co., Des Moines.

R. G. Hughes, first vice president, National Association of Homebuilders, Pampa, Texas.

A. R. Gardner, former president, Federal Home Loan Bank, Chicago.

Norman P. Mason, treasurer, William P. Proctor Co., building materials firm, North Chelmsford, Mass.

FHA and VA Housing Programs and Operations:

Rodney Lockwood, chairman. Mr. Lockwood is a homebuilder in Detroit, and a former president of the National Association of Home Builders.

Thomas W. Moses, attorney, Pittsburgh, chairman, American Legion Housing Committee.

William A. Marcus, senior vice president, American Trust Co., San Francisco.

John J. Scully, vice president, Chase National Bank, New York.

Robert M. Morgan, vice president and treasurer, Boston Five Cents Savings Bank, Boston.

Urban Redevelopment, Rehabilitation, and Conservation:

James W. Rouse, chairman. Mr. Rouse is a member of Moss-Rouse Company, Baltimore.

Richard J. Gray, president, Building and Construction Trades Department, American Federation of Labor.

Ralph T. Walker, past president, American Institute of Architects, New York City.

Ehney A. Camp, Jr., vice president and treasurer, Liberty National Life Insurance Co., Birmingham.

Alexander Summer, Alexander Summer Co., Teaneck, N. J.

Housing for Low-Income Families:

Ernest J. Bohn, chairman. Mr. Bohn is Director of the Cleveland Metropolitan Housing Authority.

Paul R. Williams, architect, Los Angeles.

James Thimmes, chairman, CIO Housing Committee, Pittsburgh.

Bruce Savage, Bruce Savage Co., Indianapolis.

Ben H. Wooten, president, First National Bank, Dallas.

The fifth study, on *Organization of Federal Housing Activities in the Federal Government,* will be made by the members of the Executive Committee under the chairmanship of Aksel Nielsen. Other Executive Committee members are Mr. Bliss, Mr. Bohn, Mr. Lockwood, and Mr. Rouse.

"The areas outlined for study were considered fundamental to any comprehensive review of the housing field and will assure that all basic subjects are covered by the Committee," Albert M. Cole, Administrator of the Housing and Home Finance Agency and chairman of the committee, said. "They do not, however, preclude other studies or questions that the Committee may determine should be considered."

Mr. Cole pointed out that although the subject matter is broad and complex, the Committee members are well versed and knowledgable in the fields to be reviewed and equipped to

(Continued on page 39)

THE FARMER'S PROBLEMS IN TERMS OF DEBT

THE farmer's need for credit has greatly increased since pre-World War II and in that period our whole price and cost structure has changed. These changes have greatly increased the number of dollars farmers need to borrow to carry on their operations compared with prewar levels.

Let's look at the statistics on farming today for a better appreciation of all the things we hear about the "farmer problem" today. The present value of all farm land is about 2¾ times what it was in 1940. Prices paid by farmers are 2¼ times 1940. The total value of non-real estate physical assets such as livestock, machinery, crops stored on farms and household furnishings is 3⅓ times 1940. But if we look at these items without considering household furnishings they are four times 1940.

The average farm mortgage recorded in 1952 by all lenders was 2⅓ times as large as that in 1940. Fewer figures are available for non-real estate loans. However, for commercial banks there was nearly a 60 per cent increase from 1944 to 1950 in the average size of non-real estate farm loans. In this same period the average size of farmers' loans from Production Credit Associations increased by 66 per cent. But if we go back to 1940 the average size of PCA loans today is three times as large.

One of the most significant changes in the credit structure during the past 12 years has been the increase in relative importance of short-term credit. Up until the last four years the farm mortgage debt—as far back as we have records—was always larger than the non-real estate debt. For example, in 1940 the total real estate mortgage debt was $6.6 billion. Farmers' total non-real estate debts—including loans from commercial banks, Production Credit Associations, merchants and dealers—was $3.4 billion.

From 1940 to 1946 farmers' repayments on their real estate mortgages out of high war-time income resulted in an over-all decrease in the total farm mortgage debt until it got down to a total of $4.7 billion. Since that time there has been a slow increase in the farm mortgage debt until it is now $6.7 billion. On the other hand, the non-real estate debt increased all during the war and since. It now stands at $9.2 billion. Farmers' total non-real estate debts passed their total mortgage debts in 1949.

The relatively slow but steady increase in mortgage debt after 1946 has been due to a combination of factors. Since 1946 the average value of farm land has risen 50 per cent. A large number of younger farmers have had to borrow to get started in farming. Many farmers have been making long-term improvements on their farm property.

However, the total farm mortgage debt is still smaller than it was in the 1920's and 1930's. But this debt is not evenly distributed among farmers. Thousands of older farmers got their farm mortgage debts well in hand or paid them off entirely during the years of high farm income during and right after World War II. However, thousands of younger farmers who have started after the war have had to go heavily into debt to buy high-priced land. Most of them have not yet had time to get their mortgage debts down to levels that would not be burdensome in times of low income.

The very rapid increase in the short-term operating debt has been due to many things. These factors include the greatly increased mechanization of farms, the expansion in the size of the average farm business, enlargement and improvement of pastures, the increase in the number of livestock on farms, modernization of farm homes, the increased adoption of conservation practices, the increased use of fertilizers and lime, and the rising costs of everything that goes into farm production.

These trends are more striking in areas where such shifts are most active and still more so on individual farms making such transitions. It is not difficult, for example, to visualize the difference in capital and credit requirements of a mule-powered cotton farm or one where the entire crop acreage is devoted, with the help of a tractor and related equipment, to maintaining a herd of dairy cows producing market milk. After a shift of this kind, the non-real estate capital might equal or even exceed the real estate capital.

The most important change is the financing of the dairy herd. A dairy cow is an expensive piece of equipment, and the purchase price ordinarily cannot be paid for out of one year's net income. Usually a dairy barn must be built and special equipment installed. Credit for these purposes generally calls for a repayment period longer than one year. The exact length of the repayment period

AND WHAT HE FACES IN THE FUTURE

By IVY W. DUGGAN

There always seems to be some sort of "farm problem" and today is no exception with commodity prices continuing their long decline. The farm problem that mortgage lenders knew best was the farm mortgage farm problem of a quarter-century ago but it is no problem now. A significant comment on farm mortgages is that in the past four years the non-real estate debt of farmers has passed the farm mortgage debt —for the first time in history. It's significant as reflecting the sound structure of the farm economy but shows that rural America too has contributed to the mountain of consumer credit we have now. Farm mortgage debt, however, has been showing a slow increase since 1946 and now stands at $6.7 billion—a striking contrast to the huge volume of twenty years ago. Mr. Duggan takes a look here at some of the farmer's problems, the money he owes and his prospects for paying. He formerly headed the Farm Credit Administration and is now engaged in banking in Georgia.

will depend, however, on a number of circumstances.

Another example is seen in hog and beef farms in the corn belt. It shows that farmers' investments in machinery and equipment in 1951 were 2½ times what they averaged in 1937-41. The value of livestock is 4½ times as high and the value of crops stored on these farms almost 5 times.

These shifts illustrate the wide variety of adjustments which farmers over the United States are making. There is an equally wide variety of short-term, intermediate-term and long-term credit combinations. However, most of them have at least two characteristics in common:

» The total amounts of credit used are larger than before, and

» There is a substantial increase in the proportion of credit requiring repayment periods of more than one year but less than the usual real estate loan.

Another important change in the financial picture is the heavy increase in the day-to-day production costs of farming. Farmers' production expenses in 1952 were 3½ times as high as they were in 1940. That, of course, means farmers have to have bigger short-term operating loans. The most important factor in these higher costs is, of course, higher prices for everything the farmer uses plus higher labor costs and taxes. Also important, however, are the increased use of such things as fertilizer, lime, insecticides and improved seed varieties. Also, the volume of production is up as a result of increased yields. That, of course, increases harvesting and marketing expenses.

Cornell University made a study of some dairy farms in New York State that point up the importance of several of these trends. Their study shows that in 1947 the capital used on these farms was about 3½ times as large as in 1907. Yes, farm receipts were up too. In 1947 they stood at 8½ times 1907. But production expenses were 14 times as high. The report on the study points out that in 1907 it took 9.7 years for a farmer's expenses to equal his capital investment. In 1947 it would take only 2.5 years. Therefore, in 1907 if a farmer ran into a period of low prices or poor crops it would be 9.7 years before his expenses equaled his capital investment. By 1947 his expenses would have equaled his investment in 2½ years. The report goes on to say:

"A falling price level could wreck the modern farmer, but not so much because of debts as because of high and relatively fixed expenses for equipment, gasoline, fertilizer, insurance, electricity and the like.

"Farming has always been a gamble. The stakes are much higher now than 40 years ago."

An analysis of cost account records in Northern Illinois, Eastern Iowa and Southern Minnesota for the shorter period of 1940 to 1951 shows much the same trend in relationship between farm expenses and capital investment.

In Illinois it would have taken 6.9 years in 1940 for expenses to equal capital investments. By 1951 it would have taken only 3½ years.

In Iowa it would have taken 4.5 years in 1940 for expenses to equal a farmer's capital investment. In 1951 only 3.8 years.

In Minnesota it would have taken 5.9 years in 1940 and 4.1 years in 1951.

There are some warning signals on the horizon for both lenders and farm borrowers.

Farm prices have dropped 10 per cent in the past 16 months. Price supports have prevented some farm commodities from declining further.

Collections in some areas have been slower and deferments, extensions and renewals have increased. Many farmers are finding it harder each year to pay completely out.

Total farm debt is increasing each year. On January 1, 1947 total for debt amounted to $8.3 billion and on January 1, 1952 amounted to $15.9 billion. This is an increase of $7.6 billion in some six years. While the total debt is at record levels, it has not increased in proportion to the increase in total farm assets.

Carryovers and surpluses of farm commodities are beginning to increase.

Exports of farm commodities have fallen off and we may find it even more difficult to sell our surplus farm commodities abroad, especially if we are not willing to buy goods from abroad.

Prices of the things the farmer sells are declining more rapidly than the prices of things that the farmer buys, which is putting a squeeze on net farm income.

There are warnings that the farm economic barometer is dropping some but not enough to indicate a storm. The economic weather is in the making and it looks as if agriculture may expect some decline in prices of farm products, in gross farm income and even more of a decline in net income during the mid 50s. However, the long-time outlook is for increased domestic demand for agricultural commodities. The increasing population is in time going to create greatly increased demands which will benefit agriculture. Today we are concerned in the case of many farm products with declining farm prices, price supports, surpluses, marketing quotas and production costs. These are real problems with us now. They must be dealt with. However, out ahead we have the problems of feeding and clothing the increasing population. This will require increased production.

There will not be much more land available. Therefore, increased supplies of food and fibre will come most likely through increased production per acre, per animal and per agricultural worker. The greatest opportunities for increased production are in the South. Increased capital will be needed and we need to be looking ahead of these future problems while dealing with the ones we have.

The drop in the farm economic barometer does not mean that bankers are going to withdraw from the agricultural credit field. It does not mean that they will fail to meet the sound needs of agriculture for credit. It does mean, I think, that bankers generally will encourage farmers to cut down on expenses.

We Can't Borrow Ourselves into Solvency

And we made our greatest mistake in thinking that we could so do. Now the country is facing a serious debt problem in consumer credit

By W. W. TOWNSEND
Economist

As nations go, we are young—and because we are still young our outstanding characteristic is vitality. We live our lives in the superlative degree and our national motto could just as well be "Nothing in Moderation" as "In God We Trust."

Our success, as measured by material things, has been so spectacular that we are prone to believe ourselves wise; but wisdom, which is complete and sympathetic understanding, is a function of maturity and while we have much of which we can justly be proud, there can be found in the background of our experience—particularly our recent experience—a great many errors, all of them errors of the head and none of the heart, but errors, nevertheless, and the hardest thing in the world to do is to unmake a mistake.

Any pronounced or protracted political or economic trend invariably develops its own series of errors and excesses, everyone of which ultimately must be liquidated. Some of our recent errors have been social, some political and some international but the one which is likely to catch up with us the soonest is *the error of believing that we can borrow ourselves into solvency.* It ranks on a par with the error of believing that anyone can drink himself sober.

The only valid criticism which ever has been leveled against our system of free enterprise capitalism is the inflexibility of debt. The current statistics show that apparently we are at the peak of our prosperity, with trade volume high, wages high, employment high, earnings high and dividends high. We enjoy the highest standard of living of any nation on earth but all of this, during the past 30 years, has been accomplished by the deliberate process of piling up *a tremendous mountain of debt, which is beginning to catch up with us* and which is al-

ready a serious problem in certain respects.

Some would have us believe that the lending industry is parasitic but, in truth, it is the greatest middleman industry the world has ever known. Without it this country could not have grown great but it is equally true that without it this country would not now face a day of reckoning, which may not be imminent but which is inevitable.

We have been deliberately "money managed" into a smashing victory in World War II, which may be illusory, and a 50 cent dollar, which is anything but illusory. Our state, local and Federal debt has been *multiplied by 10 during the last 25 years* and not all of that, by any means, was due to the costs of World War II. The President who retired from office in January and who has just returned to the political arena enjoys the unique distinction of having spent in the seven years of his administration $20 billion more than had been spent by every single one of his predecessors taken together.

But the state, Federal and local debt is not the matter of greatest concern. For one thing, the Federal debt can be paid, if necessary, by printing money. It would depreciate the purchasing power of that money but the debts can be paid. There have been local and state governments whose credit has been a little dubious at times but the record of defaults is remarkably clean.

The corporations of this country have been tempted—or perhaps induced is the better word—by ab-

normally low interest rates, to borrow for purposes of expansion and even for working capital, but the corporate debt is not a present cause for serious concern, in spite of the fact that private debt, which includes corporate debt, has increased in the past seven years from $141 billion to over $305 billion, during which period the state, local and Federal debt remained a relative constant at about $275 billion.

The non-farm mortgage debt is not a matter for too serious concern, although it has increased in the past seven years from a little over $18 billion to nearly $60 billion. The real element of danger in debt today lies in the almost fantastic increase in consumer debt, debt which is incurred with the thought of satisfying today's desires with tomorrow's income, debt which does not itself produce any income out of which it can be repaid but which, because of its nature, must be repaid, not in 20 or 30 years, as is the case with mortgage debt, but in two or three years, at the most. Consumer debt in 1945 stood at $5.6 billion. Today it is well in excess of $27 billion. Installment debt in 1945 was almost exactly $2 billion. Today it is nearly $21.5 billion. This is the debt which will catch up with us first because its maturity is the most closely at hand.

The predecessor of the present President spent $20 billion more in seven years than all his predecessors combined, and the accumulated debt which this spending represents wasn't all because of wars. Carrying this heavy debt is a problem second to none. Mr. Townsend thinks the mortgage debt isn't of serious concern but that the consumer debt is the one to worry about.

The problem here is not the willingness to pay. This nation has developed no constitutional disinclination to pay debts. The problem is the capacity to pay.

When the debts were assumed, the corollary assumption was that the incomes of the debtors would be a constant. They cannot be in every instance and this brings us to another glaring error in our recent past. *We have been pushing our machinery too hard and too fast.* Like the little boy on the bicycle for the first time who discovers that he can stay on only if he can keep pumping at a rapid rate, we have not demonstrated our ability to slow down so that we can step off. The little boy always falls off because he hasn't enough strength to keep pumping like mad indefinitely.. Nations—which resemble little boys—have "devices," so called, whereby their momentum can be sustained for fairly protracted periods and one of these devices is debt.

Furthermore, in the desire to satisfy both today's and tomorrow's wants at the same time, we have succeeded in overproducing to such an extent that we are face to face right now with a minor inventory log jam at the manufacturers' end of the pipe line of distribution. This is particularly true in the automobile industry, where production for the first six months of 1953 was at the rate of 6.4 million cars per annum and the head of the industry's largest corporation, in a statement made not more than two months ago, estimated the

total demand for the year to be not over 5.5 million. Within a few months the automobile industry is going to slow down, which means the loss of overtime pay and perhaps the third shift, or the new cars will pile up in the manufacturers' warehouses or the dealers' showrooms to the point where the distress merchandise will be something to stagger the imagination.

But this is only one instance. We are overproducing in television sets, in radios, in washing machines and in clothes dryers. During the last 12 months, also, the shoe industry produced 19.7 million more pairs of shoes than it could sell.

The laws of economics are quiet laws but they are as inescapable as is the law of gravity. They can be circumvented, as was the law of gravity when we learned to fly; but as surely as the aviator comes back to earth when the power gives out so the old laws of economics—particularly the law of supply and demand—are waiting and will take their toll.

Overproduction means inventory log jams and it makes no great difference whether they occur at the retail, the wholesale or the manufacturing sections of the pipe line of distribution. Their consequences are less production, less employment, less purchasing power, less earnings, less dividend expectancy and lower price tags on the ownership of American business. That is the prospect and the problem which we face and the only reason why the problem is laid out as a whole is because the reduction in employment and in over-all wages, out of which these debts are to be paid, is one of the inescapable consequences.

Some say that consumer debt presents no cause for concern by virtue of the fact that the savings of the nation are piling up at a tremendous rate. But does anyone know whether the savers are identical with the borrowers? The chances are better than even that they are not absolutely identical but the chance also exists that some of them are in both categories. In fact, a recent survey by the Michigan University Research Survey Center discloses that while 60 per cent of today's disposable income has gravitated into the hands of the upper and lower middle class families, those earning from $3,000 to $7,500 per annum, it is this same group which is responsible for about 65 per cent of the consumer debt.

Now, it's all very well for the objective economist to state that the savings can be used to pay the debts. There isn't any definite assurance of this because it may be Joe who is the saver and Jim who owes the debts —and Joe won't pay Jim's debts. But to whatever extent it does work out that way, the managers of the thrift institutions are presented with the problem represented by the necessary withdrawals. The sum total of consumer debt is more than all the deposits in all the mutual savings banks, greater than all the share capital in all the savings and loan associations, 60 per cent of all the time deposits in all the commercial banks and 30 per cent of all three taken together, so the risk exposure is fairly substantial.

Another problem is presented and that is the problem of mortgage supply. There was a time not long ago when construction loans were just as safe as home owner loans and for the simple reason that the builder could sell whatever he put up, almost from the plans. The building business, however, by reputation, is as speculative as is any other business. The risk factor in the building business, which was practically non-existing during the past decade, has become quite conspicuous of late and this fact is well known. There has been plenty of mortgage money for the home owner but the builder is finding it difficult to borrow and when he does find the money he has to pay a higher rate or a bonus.

The building boom *is definitely over the hill,* aided and abetted by the obvious fact that new family formation has been in a decline for several years and will probably continue to decline until about 1957.

Any problem properly analyzed is about three-quarters answered and any danger clearly anticipated is about three-quarters averted. The fact must be recognized that these problems do exist, that they are likely to get worse before they are better and that, while the ultimate outlook for business is good, the immediate outlook is somewhat dubious. If advice were to be sought, it could be given most concisely: Take it easy, watch your step and don't get too far off first base!

The public debt will be the determining market influence for a long time to come but whatever happens, those days of very easy credit are gone

DON'T EXPECT A RETURN OF VERY LOW INTEREST RATES

By ROY L. REIERSON
Vice President, Bankers Trust Company, New York

WE ARE passing through the cyclical peak of investment demands and bond yields. The establishment of a clearly defined downward trend in interest rates is likely to be deferred until a decline in investment activity becomes more clearly evident.

Measures adopted by the Federal Reserve and the Treasury in June and July were reflected in a significant relaxation of the extremely tight conditions that prevailed in the money market in the second quarter. The investment of liquid funds, by corporations and others, in short-term governments further helped reduce money market rates; it also helped offset part of the squeeze on bank reserves resulting from the normal seasonal expansion in bank loans. The shortest term money rates are appreciably below levels of May and June, and in fact have averaged somewhat lower than in the early months of this year. However, medium-term rates are only slightly lower than at midyear and so far show a rise for the year as a whole.

Business needs for bank credit rise seasonally in the latter part of the year, but the increase in commercial bank loans over the next few months is likely to be restrained by several factors. The lower prices of agricultural commodities and greater use of government loans will probably result in less of a seasonal rise in bank loans normally used to finance crop movements.

The acceleration of income tax payments under the Mills plan means that corporations have paid about 10 per cent more of their taxes in the first half of the year than was the case in 1952. Furthermore, corporate profits are likely to be higher than in the second half of last year, when they were adversely affected by the steel strike and its aftermath. Business corporations should have substantially more cash available either for investment in short-term government obligations or to reduce their reliance upon bank credit.

The large growth of business inventories in the last quarter of 1952 is not expected to be repeated this year. Nor is the expansion in consumer and real estate loans likely to aggregate as much as in the closing months of 1952.

New Treasury financing will also be significantly less than in the last quarter of 1952, when tax anticipation bills totalling $4.5 billion were offered. This prospect reflects the recent failure of Congress to raise the statutory debt limit. The Treasury may be able to meet its requirements through the end of 1953 by drawing down its cash balance. However, it will probably prefer to avoid an excessive drain on its funds and therefore may raise new money within the limit of the debt ceiling.

At the present time, the debt subject to the limit is around $3 billion below the ceiling, and the margin will be narrowed by special issues to government trust funds and continuing net sales, presumably, of savings bonds and notes. On balance, the Treasury may be able to raise perhaps $2 billion, but not much more, in new money over the remainder of 1953; this would be about one-half the amount borrowed in the last quarter of 1952. If the Treasury decides to undertake a new offering, it will presumably favor short-term obligations, which may be forthcoming within the next month or so.

Although the demands for bank credit on the part of business and the Treasury during the balance of 1953 are likely to aggregate substantially less than in the corresponding period a year ago, nevertheless economic forces will be operating in the direction of moderately tighter credit conditions.

Currency in circulation is rising to its seasonal peak in December, and there is a sporadic outflow of gold which, if continued, will add to the pressure on bank reserves.

A decline in business activity, if modest, is not likely to have any important effect upon this outlook for some seasonal tightening in the money market through the end of this year; however, a business downturn would accentuate the seasonal easing of credit in early 1954. The course of money rates under these circumstances is likely to depend substantially upon the measures employed by the monetary authorities, whose actions, in turn, will be governed importantly by their appraisal of the economic scene.

The record of recent months provides some clues regarding the credit policies that are likely to be applied by the authorities in the period ahead.

The Federal Reserve, like the monetary authorities in most major countries of the free world, is trying to carry out *a flexible credit policy.* Such a policy involves restraining credit in periods of boom while discouraging credit liquidation and facilitating credit expansion in an economic downturn.

The experiences of 1952 and early 1953 show the actions that may be expected when production is at high levels and the labor force is fully employed. Under these conditions the authorities took a moderately restrictive position. Even in the early part of 1953, when production and business were moving to new peaks, they did not aggressively contract credit, but were unwilling to provide additional bank reserves through open-market operations at a time when the need for credit is usually at a seasonally low ebb.

Since credit demands in the spring of 1953 remained large, this permitted economic forces to tighten the money market. In an economy operating at or near peak levels of employment, production and income, the Federal Reserve is likely to continue to *lean toward moderate credit restraint.*

However, the general pursuit of a basically restrictive course does not preclude rapid and sensitive modifications in response to shifts in underlying conditions, and the Federal Reserve in the past several months has amply demonstrated its willingness to alter its position. The easing of credit around mid-year apparently represented in large part the reaction of the Federal Reserve to the accumulating evidence that the course followed earlier in the year was having unduly restrictive effects. Doubtless the authorities were surprised and disturbed by the deterioration in financial sentiment and in bond prices in the second quarter of the year; they probably would not relish a repetition of this experience. Once the deterioration assumed major proportions, they undertook corrective action promptly.

Furthermore, the authorities have given assurance that the needs of the Treasury will be met "without undue strain on the economy," and have demonstrated their readiness to provide for the seasonal increase in the credit requirements of the economy in the latter part of the year. This effectively dispelled the fears to the contrary that had contributed so much to the credit squeeze.

It is the essence of a flexible credit policy that the authorities be ever alert to changes in the economy and be prepared to adapt their position accordingly. Even then there will be unavoidable time lags between the application of credit measures and their effects upon business. Hence there is a risk that any course may be pursued beyond the period when a change is appropriate. However, the authorities are engaged in a continuous reappraisal of economic trends and conditions; one may predict with a relatively high degree of certainty that signs of an economic downturn will be either accompanied or rapidly followed by a shift from credit restraint in favor of a decided easing of credit conditions.

In the present environment, the outlook for interest rates, especially bond yields, depends not only upon the factors operating in the economy and the response of the Federal Reserve, but also upon the debt funding activities of the Treasury. Public statements by the Treasury authorities have stressed three main objectives of debt management policy. These are (1) achieving a more balanced maturity distribution of the Federal debt; (2) avoiding reliance upon Federal Reserve support in the Treasury's financing operations, especially when such support would increase bank reserves and thus impede credit restraint; and, as a corollary, (3) having the Treasury compete freely in the security markets and pay competitive rates for its funds. The important question is how rapidly the Treasury may advance toward these goals.

So far in 1953, the Treasury's debt operations have been characterized by caution and circumspection. The offering of \$1 billion of 3¼ per cent bonds was apparently within the po-

tentialities of the market and probably would have been absorbed without difficulty had the "free riding" problem been avoided. For the balance of its new money requirements to date, the Treasury has relied almost wholly upon the issuance of 3-month bills and 9-month certificates. Nor has the Treasury attempted to "force" the market in its refinancing operations.

It must be recognized that the result of this careful approach has been to retard the deterioration in the maturity distribution of the debt rather than to achieve any real improvement. However, a more vigorous policy appears precluded, at the present time, by the record volume of private investment requirements and the need to finance large Treasury deficits.

Some of the difficulties involved in attempting to sell long-term Treasury securities in the prevailing environment pertain to the technical aspects of new financing. In a period of strong demand for investment funds, the Treasury is at some disadvantage in competing with other borrowers. State and local governments have the advantage of tax exemption, and corporate borrowers can make their issues more attractive by marking up the coupon rate. However, if the Treasury raises the rates on its offerings, it runs the risk of precipitating a rise in yields throughout the bond market without materially increasing the competitive attractiveness of its own obligations.

Furthermore, the American economy is geared to a large volume of liquid assets; many investors prefer to maintain substantial holdings of short-term government obligations, and rising interest rates may for a time enhance rather than reduce the desire to maintain a liquid position. In any event, it is difficult to perceive how the Treasury under current conditions can pursue a vigorous funding policy as long as it must borrow large sums from the market to finance the deficit.

An energetic funding program also entails some risks of a broader economic character. The levels of interest rates, their behavior and their prospective trends are generally assumed to have substantial effects upon business decisions concerning future capital investments. Had the trends evident in the credit markets in the second quarter of this year been allowed to continue for a protracted period, they would doubtless have caused substantial adverse repercussions in the economy. Furthermore, if Treasury operations take too large a share of current savings, they may well contribute to a downturn in private investment and hence in economic activity.

There is every indication that the Treasury, in managing the debt, is mindful of all these risks and problems. The recent record suggests that the authorities are not likely to embark upon a more intensive effort to extend maturities until some relaxation of investment demands gives the Treasury an opportunity to move somewhat more rapidly. Even then,

however, the task is likely to remain formidable, since any material reduction in investment and business activity is likely to confront the Treasury with continued budget deficits and further new money requirements. Thus, even if investment demands fall off and economic activity moves downward, the Treasury is unlikely to proceed with its funding program so vigorously as to prevent an easing of long-term interest rates.

This review of factors operating in the money and investment markets, and of the monetary and fiscal policies in effect, suggest these conclusions, which may be summarized as follows:

>> The credit squeeze and bond market debacle in the spring of 1953 reflected largely the exaggerated fears of sharply restrictive credit measures, which greatly magnified the effects of basic economic forces. The conditions that combined to bring about this uneasiness and apprehension among the financial community were soon corrected, and are not likely to be repeated in the foreseeable future.

>> The experience, however, served to dispel some of the exaggerated anxieties regarding the aims of the Federal Reserve and the Treasury; in its wake there followed a clarification and reaffirmation of the sound, sensible and responsible policy standards which the authorities had been endeavoring to follow, but which they had permitted at times to become misconstrued.

>> For the period ahead, a basic conclusion to be drawn from the experience of recent months is that the Federal Reserve is continuing to follow a flexible credit policy. Since this policy presupposes a keen alertness to economic developments, Federal Reserve action is likely to remain predicated upon the condition of the economy, including the rate of investment activity and the borrowing requirements of the Treasury.

>> The Federal Reserve is continuing to supply funds to meet seasonal credit needs and is permitting the money supply to grow commensurately with the economy. Fears that the authorities may deviate from this basic course appear unwarranted.

>> Under conditions of full employment and sustained high levels of business activity in the aggregate, the Federal Reserve is likely to display a mildly, restrictive attitude toward the market. However, the authorities may be expected to be alert to avoid a repetition of the earlier credit squeeze and the attendant unsettlement in the markts. In an economic downturn, the authorities will almost certainly shift rapidly toward a pronounced easing of credit.

>> The coordinated decisions on credit and debt management action in June-July give reassurance that effective cooperation between the Treasury and the Federal Reserve is continuing. This is as it should be and as it must be. The Treasury should not dominate the Federal Reserve System but neither can the latter be unmindful of the problems of the former.

>> Efforts by the Treasury to fund the debt have so far been temperate and restrained, and while the goals of the debt managers remain unchanged, they are aware of the many hazards to the economy, and are not likely to be overly zealous.

>> Aggregate demands for investment funds in 1954 may decline somewhat from the high levels of the current year. With large personal savings continuing, it is probable that we are moving through the cyclical trough of Government bond prices and that economic forces will operate in the direction of higher bond prices in the course of 1954. However, the problem of funding the debt will be a market influence for a long time ahead. As a result, a moderate business downturn is unlikely to lead to a repetition of the excessively easy credit and low interest rates that were generally characteristic of market conditions in the past two decades.

As condensed from Mr. Reierson's address before the ABA 1953 Convention in Washington.

>> **HOUSING COSTS:** More than half of the new homes sold in the United States cost over $10,000, compared to 42 per cent in 1950. Following the same trend, the number of home owners who spent between $5,000 and $7,499 has been halved—from 16 per cent to 8 per cent of the total.

From early 1948 to early 1953, the number of families renting housing has grown from 17 to 19 million, with an average monthly rent up from $33 to $47. It is estimated that these rental payments are approximately 14 per cent of the average income of the renters, 2 per cent higher than 1948.

»HOLLYDAY IN BIRMINGHAM: FHA Commissioner Guy T. O. Hollyday visits Birmingham to speak before the Birmingham MBA. Here, O. G. Gresham, Gresham & Co., Commissioner Hollyday, Ehney A. Camp, Jr., vice president of Liberty National Life Insurance Company, and (standing) Robert Cotton, mortgage officer, Protective Life Insurance Company and Association president.

Frank Denton New Florida MBA Head

Frank E. Denton, vice president, American Title and Insurance Company, Miami, was elected president of the Florida MBA, to succeed John A. Gilliland, vice president, Knight, Orr & Company, Inc., Jacksonville, at the group's first annual meeting in Orlando. W. Herbert Speir, vice president, Commander Corp., Jacksonville, R. T. Tucker, president, Tucker & Branham, Inc., Orlando, and Harry E. McCardell, Jr., McCardell & Co., St. Petersburg, were elected vice presidents. Lon Crow, Jr., executive vice president, Lon Worth Crow Company, Miami, was named secretary-treasurer.

Directors named were John A. Gilliland, Frank W. Reed, trust officer, First National Bank of Orlando, George W. Lubke, Jr., president, George W. Lubke, Inc., Daytona Beach, L. A. Hogarth, vice president, B. D. Cole, Inc., West Palm Beach, and J. D. Williamson, manager, Stockton, Whatley, Davin & Co., Tallahassee, and H. L. Sudduth, Sudduth Realty Co., Panama City.

Business transacted at the annual meeting consisted almost entirely of pre-MBA Convention plans and the role of the Florida MBA in them.

PEOPLE — EVENTS AND LOCAL MBAs

Lincoln Savings Bank, New York announces the election of **Michael J. Burke** as a trustee. Since 1926, Mr. Burke has been associated with financial institutions engaged in the mortgage business in the New York area. He joined Lincoln in 1949 as vice president and mortgage officer, and before that was vice president of the Manufacturers Trust Company in charge of its real estate and mortgage department. He is a member of the Committee on Mortgages and Real Estate of the Savings Banks Association of the State of New York and a member of the Mortgage and Real Estate Committee of the New York Real Estate Board.

M. J. Burke

Walter W. Friend, partner of Tanner, Sillcocks & Friend, has been elected a trustee of Title Guarantee and Trust Company, New York; **William H. Deatly,** president, announced. Mr. Friend is vice president, counsel and trustee of the City Savings Bank of Brooklyn. Mr. Deatly also announced that **Edward F. Keenan,** attorney, and a member of the Association of the Bar of the City of New York and the New York State Bar Association, has been elected to membership on the Title Insurance Advisory Committee of the company.

George T. Conklin, Jr., has been named financial vice president of The Guardian Life Insurance Company of America.

Expansion of MBA's Roster of Members

The steady stream of new members into MBA continues and this month's report features another addition from beyond our borders, an institution in Cuba. The 2,000th member is just around the corner as the Association approaches its 40th birthday. Watch for the firm which happens to be the one approved for this milestone-membership. New members admitted include:

CUBA—*Havana:* Fomento de Hipotecas Aseguradas (FHA), FHA Building, 17 & J, Vedado, I. Quintana, Director Gerente.

DISTRICT OF COLUMBIA — *Washington:* Raymond M. Foley, 1101 Vermont Avenue, N. W.

KENTUCKY — *Louisville:* Louisville Mortgage Service Company, 215 South Fifth Street, Charles M. Peege, executive vice president.

LOUISIANA—*New Orleans:* Louis G. Dutel, Jr., 823 Perdido Street.

MINNESOTA—*Minneapolis:* Hadlick & Diessner, 846 Builders Exchange Building, Karl F. Diessner, partner.

NEW JERSEY—*Atlantic City:* Herman J. Finn, Guarantee Trust Building.

NEW YORK—*New York:* Edward F. Keenan, 522 Fifth Avenue; *New York:* Frank J. Sullivan Company, 60 E. 42nd Street, Edward A. Malaney.

PENNSYLVANIA — *Harrisburg:* Herbert G. Rupp, Jr., 317 N. Second Street.

TEXAS—*Austin:* Wm. G. Niece, attorney, 207 West 7th St.

UTAH—*Ogden:* First Security Bank of Utah, N. A., Ogden, Carl Porter, vice president; *Provo:* First Security Bank of Utah, N. A., Provo Branch, Provo, F. W. Canfield, vice president.

VIRGINIA—*Norfolk:* Sellers and Underwood, 500 Citizens Bank Building; *Portsmouth:* Robert R. Beaton, 708 Professional Building, P. O. Box 97.

Changes in MBA firm names were:

McMillan Mortgage & Investment Corp. to McMILLAN MORTGAGE CO., Oxnard, California.

American-First Trust Co. to AMERICAN-FIRST TITLE & TRUST COMPANY, Oklahoma City, Okla.

Land Title Bank and Trust Company to TRADESMENS LAND TITLE BANK AND TRUST COMPANY, Philadelphia, Pennsylvania.

Washington Mortgage & Insurance Co., Inc. to WASHINGTON MORTGAGE CO., INC., Seattle, Washington.

» HOLLYDAY IN ATLANTA: Skipping across country from Birmingham —where he's shown lighting a candle on some pretext or other on the opposite page—FHA Commissioner Guy T. O. Hollyday came to Atlanta where he addressed a group of about 250 in the Atlanta Biltmore under the sponsorship of the Atlanta MBA, the real estate board, home builders and the state savings and loan league.

Commissioner Hollyday told the group of FHA's current experiments, planning and work in connection with rehabilitating blighted areas. The occasion was a gala one with honor guests including the Mayor of Atlanta, William B. Hartsfield; Congressman of the Third District, James C. Davis and President of Federal Reserve Bank, Malcolm Bryan, and the heads of all federal agencies. Mr. Hollyday was presented by John Thigpen, State Director of FHA, and master of ceremonies was Jack Robertson, president, Atlanta MBA.

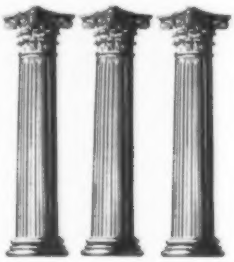
Lesson on Making an Honest Dollar

(Continued from page 16)

laid the groundwork for the policy which the present Administration is pledged to continue.

The Federal Reserve System *has no "hard" money policy.* It is a *good money policy.* It is free to allow the demand for money to have its normal and natural effect and to supply funds to keep pace with normal growth. It believes as we do that good money makes good times.

The third and final pillar is proper debt management. As of the moment



our debt is more than $273 billion—which is a terrific amount of debt. The manner in which this debt is handled—that is, maturing issues refinanced and new issues placed—has a very substantial bearing upon the well-being of our nation's economy.

Nearly three-quarters of this debt matures within less than five years or is redeemable at the holder's option. One of the things we are trying to do is to extend that average maturity gradually.

We took a first step in this direction back in April by putting out a 30-year bond at 3¼ per cent. That rate was higher than the rate for previous issues, but it reflected the going rate at the time of the issue as determined by the daily current market purchases and sales of outstanding government securities. Early in September we had an encouraging response to a proposal which allowed a choice between one and 3½-year maturities in refinancing an issue of $7.9 billion. About $3 billion of the total exchanged was voluntarily placed in the longer term security.

It is our firm intention to offer more intermediate and long-term issues at opportune times in the future. We will use care, of course, not to press the market in competition with state, municipal and private financing which is at a peak of demand at the present time.

Too rapid movement on our part at this time in crowding into this market and increasing the already enormous demand for longer term funds might very well still further unduly press up on the interest rates for all loans and even deny many other governmental and private borrowers an opportunity to obtain the necessary funds.

It is also our goal to move at opportune times a portion of the debt out of the banks into the hands of private investors.

Now about the current outlook, my crystal ball is no bigger or brighter than that of anyone else. The decline in the stock market is heralded by some as a sure sign of disaster. I cannot believe that that is so. It may well be that, as the fear of inflation declines, some switching is taking place from stocks to bonds or cash which the holders have not dared to make during the past period of growing inflation. It may also be that there is some fear of declining earnings as certain supplies more nearly approach demand and goods become available. That is nothing to shiver about. In our great and growing economy some adjustment is constantly going on. Wherever adjustment is required, let's face it with confidence and get at it.

I do not believe in blind faith. If trouble is possible, just the opposite is indicated. Keep your eyes open. Seek out the soft spot and see what can be done about it. For over two years now, from quarter to quarter, businessmen have been expecting and predicting some downturn. It has not materialized in many lines because government and private spending has been increasing faster than new productive capacity came in. Government spending now appears to be on the road to reduction. That is what

the American people want and demand. But in spite of all we can do and all the savings we can make, a relatively small reduction is the most that we can hope to accomplish—quickly. That means that there will still be a tremendous amount of money to be currently pumped into the economy. And furthermore it is the definite policy of this Administration, through tax reductions, to return to the people for them to spend for themselves all the real savings in government spending which can be reasonably anticipated.

As I promised at the time, the excess profits tax will expire on December 31st, and there will be no request for renewal. At the same time an average of 10 per cent reduction in individual income taxes is scheduled to go into effect, and it will become effective. Many further adjustments in taxes are now under consideration by the Ways and Means Committee and the Treasury for submission to the next Congress.

The great additions to producing capacity in several lines which have been stimulated by government action over the past few years are now becoming available. The volume of goods we can now produce is far greater than ever before. Lower levels of operation in some lines will develop more material than we have ever had, and it may well be that in some cases this output may be all that the country needs for a while. But does this mean catastrophe? Our volume of production and employment can be higher than ever and we may still have some capacity in reserve. High volume but good supply—that means competition, efficiency and more value for the consumer's dollar. Surely we have not deteriorated in this country so that all we can see is calamity if the day of allocations and the order-taker is passing and we again have to develop a salesman.

It cannot be that Americans can fear a free competitive economy. That is what we have thrived on. That is how we grew great. The necessity for a little more active selling never hurt anyone. A little more quality, a little more value for the customer has given us the best merchandise in the world. A little more production from the same amount of human effort through organization, management, ingenuity and invention, labor power and tools has given us higher and higher standards of living. Surely we are not fearful that we cannot do it again. This Government is dedicated to the maintenance of a high level of employment and production, and it will pursue policies to foster that end.

As condensed from Secretary Humphrey's ABA convention address.

PRESIDENT'S COMMITTEE

(From page 25)

develop able recommendations in a relatively short period of time.

"There is readiness for fresh thinking on these questions," he said. "We are at a logical threshold for new and imaginative approaches to the housing problems of the Nation."

The subcommittees in the four program fields will get their work under way at once, with the subcommittee on housing organization to begin its study about the middle of October. Views and proposals already assembled in the series of conferences that Administrator Cole has conducted during the past three months will be made available to the Committee members.

The subcommittees will also be provided with staff assistance, and have authority to employ consultants and to use the help of fiscal and economic agencies of the government, as well as the housing agencies.

The Executive Committee has scheduled further meetings on October 16, October 28-29, November 17, and November 30. The full Advisory Committee will meet on November 2 and again on December 1, 2, and 3.

W. Herbert Welch, as Executive Secretary of the Advisory Committee, will direct arrangements for the meetings and coordinate the various studies and reports.

(This month's cover shows the committee at its first meeting.)

PREDICTION FOR 1954

Credit for the first 1954 prediction affecting building and mortgages goes to Miles L. Colean, of MBA's *Washington Letter* and who no doubt will amplify what he sees in his crystal ball when he speaks at the Miami Beach Convention.

It's another million house year, he says in *House and Home*.

"Although this would mean about a 10 per cent drop from this year's prospective housing production, whatever is built in 1954 will be practically all privately financed housing, since the enfeebled public housing program can no longer be counted upon to add its 35,000 to 70,000 to the total.

"Close to a million new privately financed houses should be a very satisfactory prospect for the building industry," Colean declares. This goal is dependent on two factors:

» A happy outcome to the present FHA-VA mortgage boggle, and

» The response of the industry itself to the kind of market it will face.

He says there is already some possibility of improvement in the mortgage situation and predicts that if the issue is not sufficiently resolved by the end of 1953, Congressional aid may be forthcoming before the 1954 season gets far under way.

Even if there were no changes in the FHA-VA setup the prospect still is for at least 900,000 new houses in 1954.

"Actually more money has gone into mortgage loans in 1953 than in 1952. Moreover the proportion of mortgage loans to other investments of savings institutions has been greater than in 1952."

Despite present mortgage difficulties, there is good reason to believe that the worst is over. The government bond market has been much improved. The Federal Reserve has already taken steps to make sure that credit would be available to meet the seasonal demands of farmers and businessmen, and additional increases in the credit base may be expected before the year-end. An even larger volume of mortgage funds is in prospect for 1954. Interest rates already have passed a peak and probably will drop somewhat farther, Colean predicts.

Colean points out that although the rate of new family formation has slackened, there is a considerable underlying market strength due to increasing size of families, desire for more modern housing, a substantial migration of population and technological improvement in house building. Especially noteworthy is the steady increase in the numbers of second, third and fourth children.

The technological change in house building has really only begun. It still has far to go and its rate of advancement can be speeded up. Accelerating technological change is more than the industry's big opportunity. It will be a necessity if home building is to maintain its market from now until those lush years in prospect during the 1960s when another geyser in family formation may bring a return to automatic selling.

Until the 60s, automatic selling cannot be depended upon. The product will have to have a special appeal and the producer will have to be ingenious and unremitting in his sales effort.

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